

ND TFFR Funding Challenge

Part 1: Exploring Options

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ND Retirement & Investment Office (RIO)

ND Teachers' Fund for Retirement (TFFR)

TFFR Message

- ❑ TFFR faces a significant funding challenge as a result of the 2008-09 market meltdown.
- ❑ While the problem is big, it is not insurmountable.
- ❑ Options are painful, and difficult choices will need to be made.
- ❑ Meeting the challenge will require support of teachers, administrators, school board members, and legislators.



Background Information

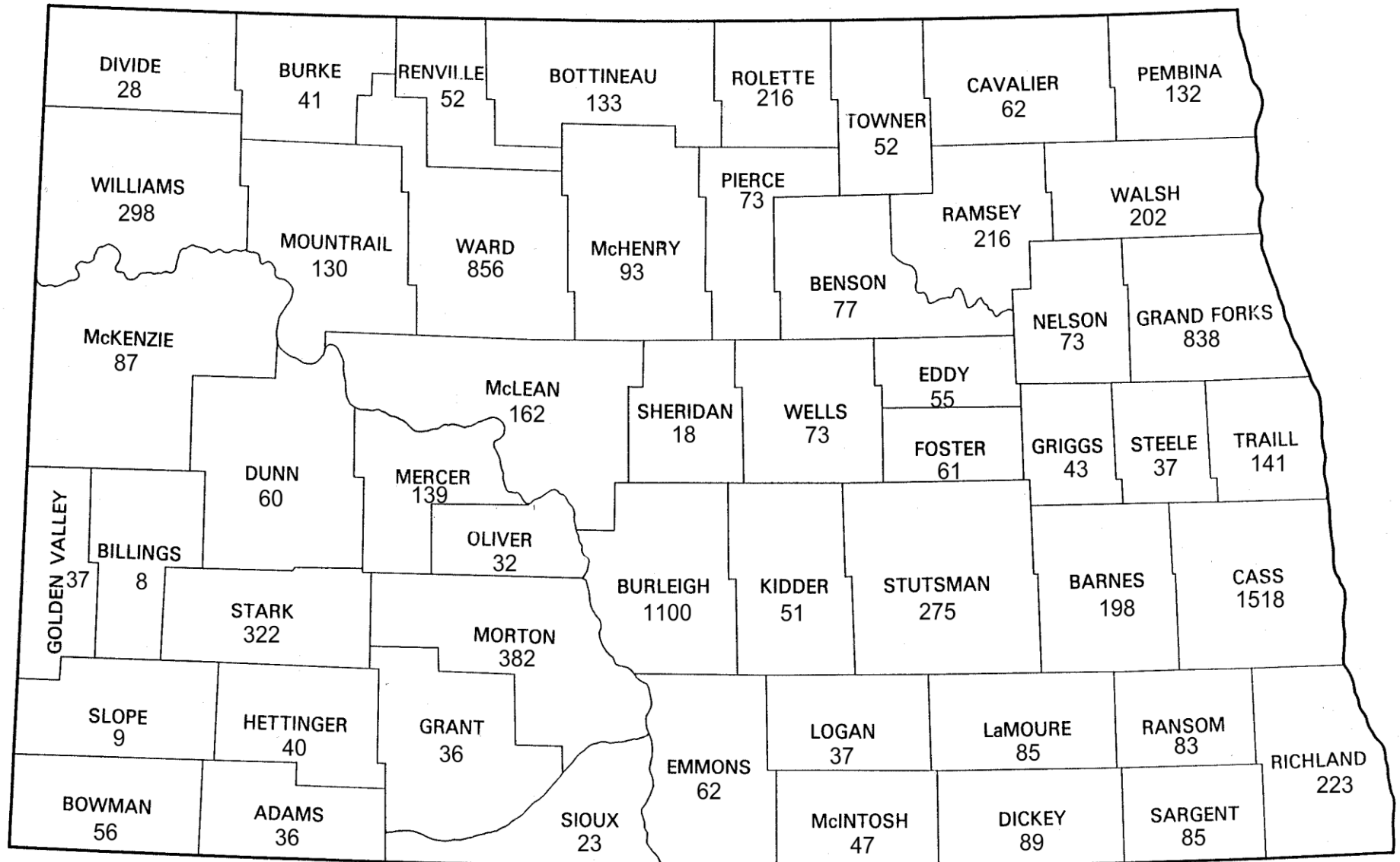
TFFR Board of Trustees

- ❑ TFFR program is managed by a 7-member board made up of 5 members appointed by the Governor and 2 state officials.
- ❑ Active School Teachers
 - ▣ Mike Gessner, Minot – President
 - ▣ Kim Franz, Mandan
- ❑ Active School Administrator
 - ▣ Bob Toso, Jamestown
- ❑ Retired Members
 - ▣ Clarence Corneil, Dickinson
 - ▣ Lowell Latimer, Minot – Vice President
- ❑ State Officials – Ex officio members
 - ▣ Kelly Schmidt, State Treasurer
 - ▣ Wayne Sanstead, State Superintendent

State Investment Board (SIB)

- ❑ The 11-member SIB is responsible for implementing TFFR's investment program.
- ❑ SIB members include:
 - ❑ Lt. Governor
 - ❑ State Treasurer
 - ❑ State Insurance Commissioner
 - ❑ State Land Board designee
 - ❑ Workforce Safety & Insurance designee
 - ❑ 3 TFFR trustees
 - ❑ 3 PERS trustees

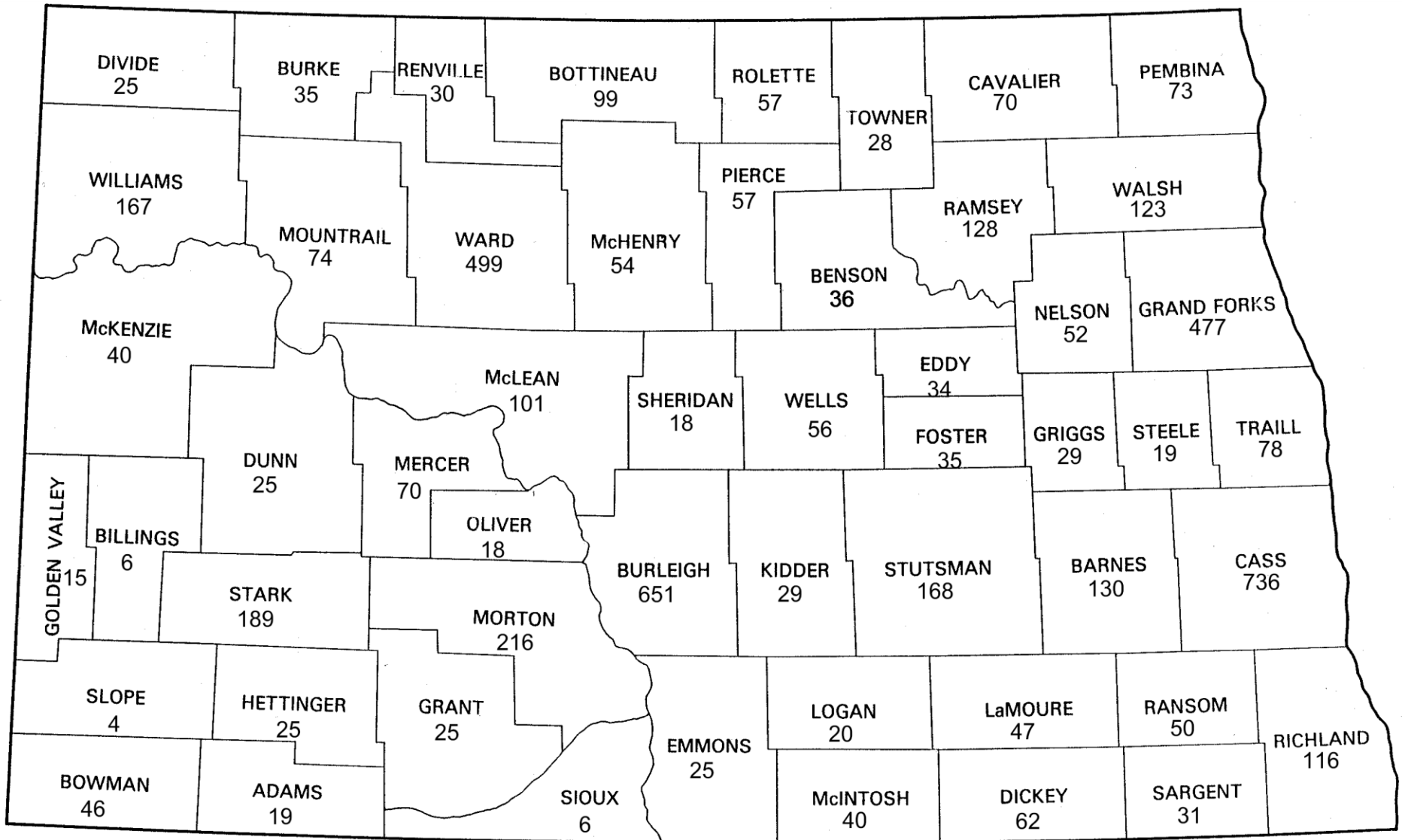
TFFR Active Members



In-state 9,282
Out-of-state 425
Total 9,707

7-01-09

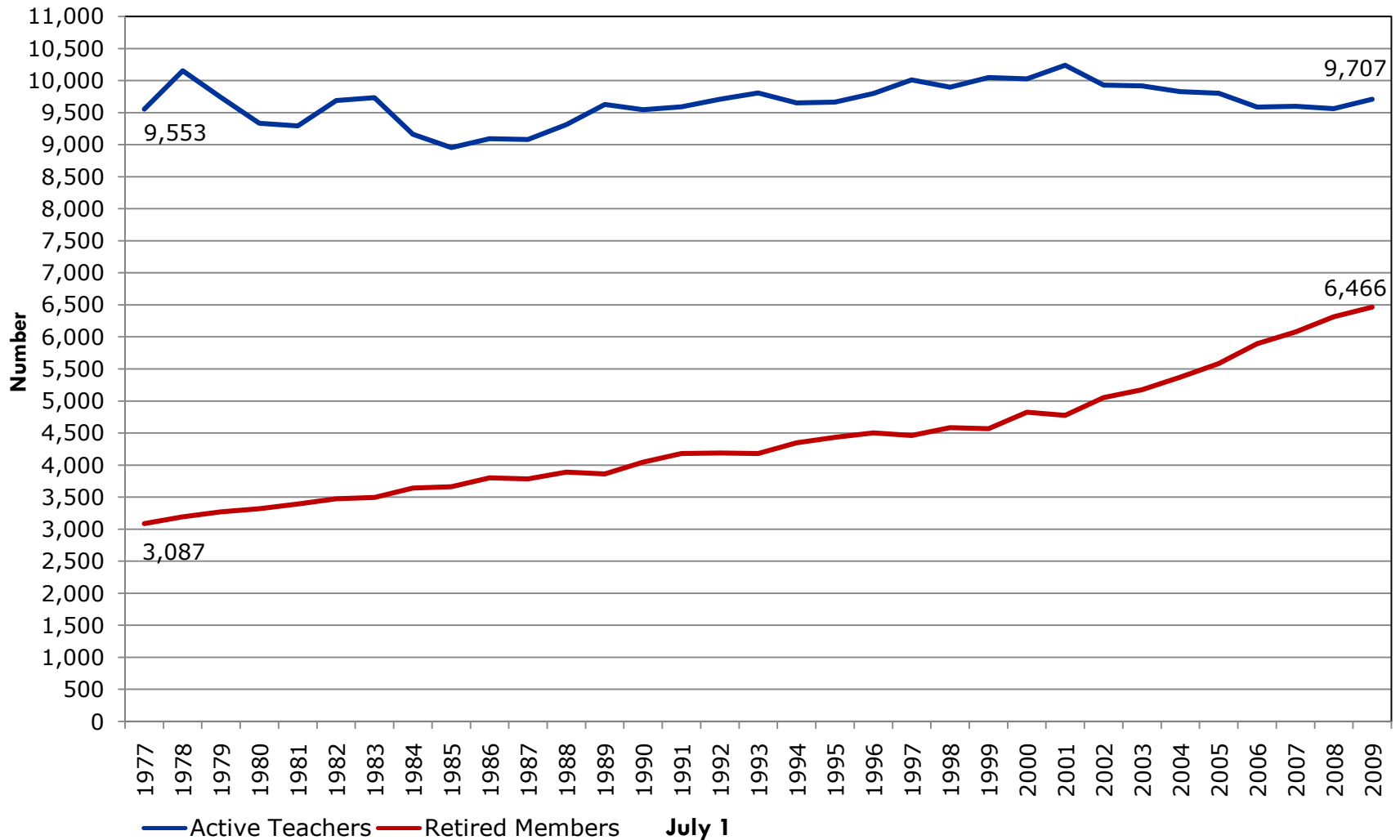
TFFR Retired Members



In-state	5,263
Out-of-state	<u>1,203</u>
Total	6,466

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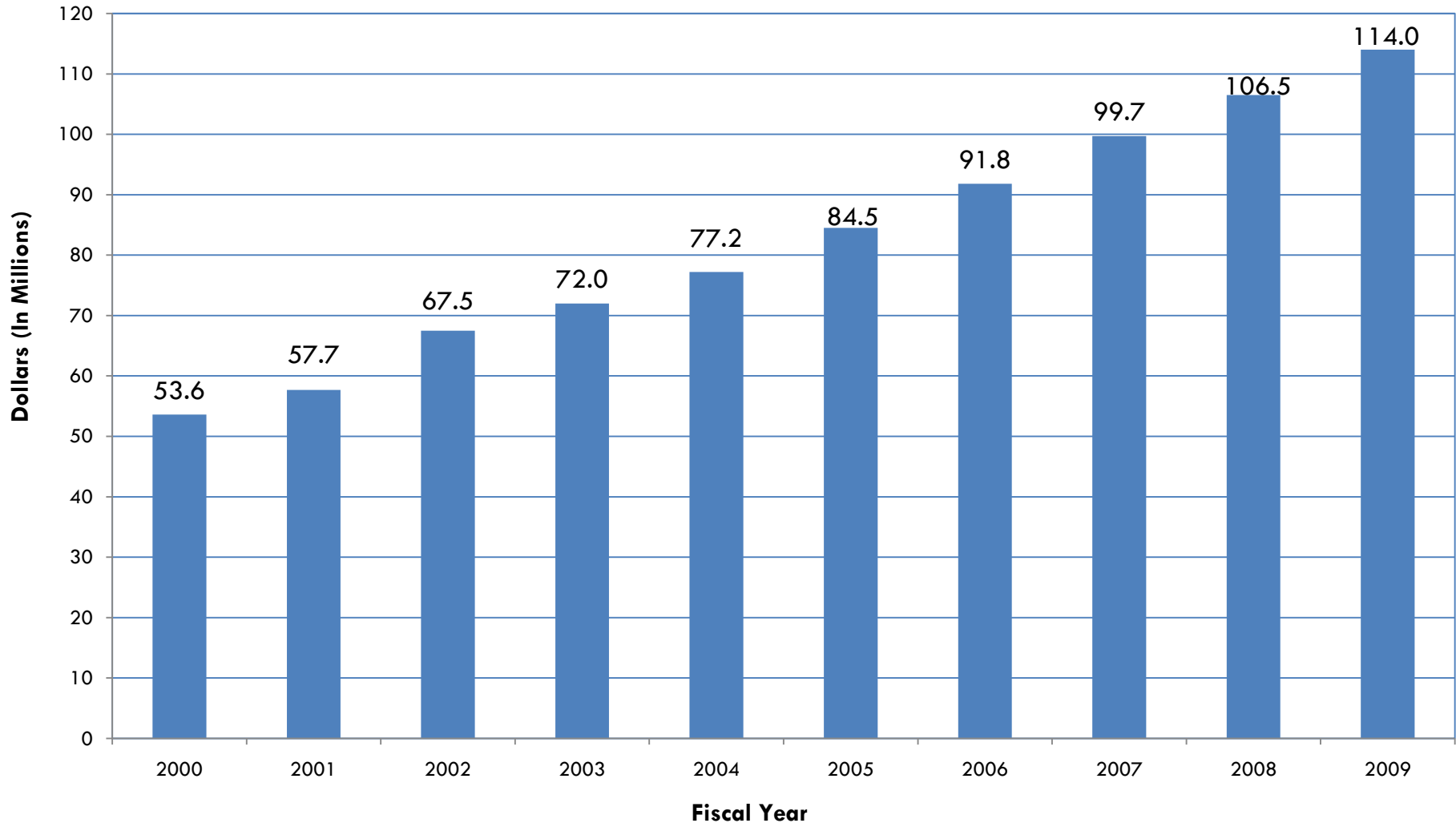
Active and Retired TFFR Members 1977-2009



Average Monthly TFFR Benefits by County

County	Ret Cnt	Avg Ben	Tot Ben	County	Ret Cnt	Avg Ben	Tot Ben
Adams	19	1,448	27,512	Mercer	70	1,658	116,040
Barnes	130	1,536	199,742	Morton	216	1,702	367,634
Benson	36	1,630	58,695	Mountrail	74	1,336	98,864
Billings	6	1,038	6,230	Nelson	52	1,355	70,459
Bottineau	99	1,415	140,113	Oliver	18	1,798	32,360
Bowman	46	1,551	71,337	Pembina	73	1,602	116,970
Burke	35	1,396	48,843	Pierce	57	1,501	85,537
Burleigh	651	1,629	1,060,423	Ramsey	128	1,416	181,225
Cass	736	1,735	1,277,069	Ransom	50	1,402	70,105
Cavalier	70	1,361	95,266	Renville	30	1,560	46,813
Dickey	62	1,110	68,823	Richland	116	1,569	182,047
Divide	25	1,840	45,989	Rolette	57	1,363	77,697
Dunn	25	1,540	38,495	Sargent	31	1,191	36,935
Eddy	34	1,288	43,801	Sheridan	18	1,286	23,155
Emmons	25	1,347	33,668	Sioux	6	793	4,759
Foster	35	1,505	52,666	Slope	4	722	2,888
Golden Valley	15	1,286	19,284	Stark	189	1,534	289,961
Grand Forks	477	1,829	872,433	Steele	19	1,218	23,139
Grant	25	1,101	27,516	Stutsman	168	1,482	248,948
Griggs	29	1,100	31,897	Towner	28	1,353	37,882
Hettinger	25	1,680	42,009	Traill	78	1,470	114,632
Kidder	29	1,293	37,489	Walsh	123	1,518	186,765
LaMoure	47	1,437	67,519	Ward	499	1,626	811,228
Logan	20	1,432	28,639	Wells	56	1,474	82,523
McHenry	54	1,223	66,051	Williams	167	1,508	251,789
McIntosh	40	1,541	61,628	Totals	5,263		8,294,621
McKenzie	40	1,605	64,188	Out of State	1,203		1,494,903
McLean	101	1,455	146,941	Grand Totals	6,466	1,514	9,789,524

Annual TFFR Pension Benefits Paid



TFFR Participating Employers 2009-10

▣ School Districts	183	
▣ Special Ed Units	19	
▣ Counties	11	
▣ State Agencies/Institutions		4
▣ Other		<u>14</u>
2009-10 TOTAL	231	

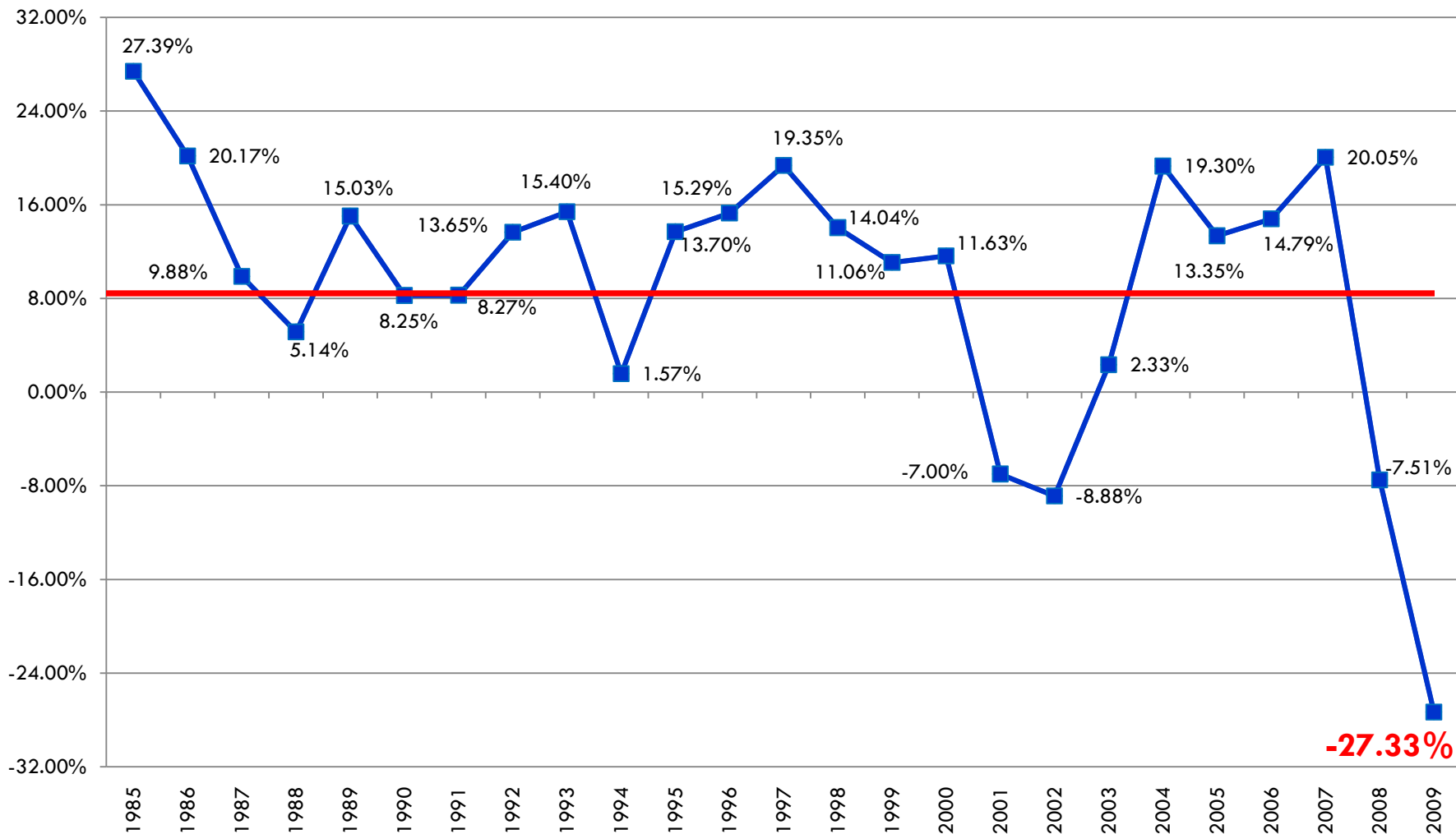


Funding Challenge

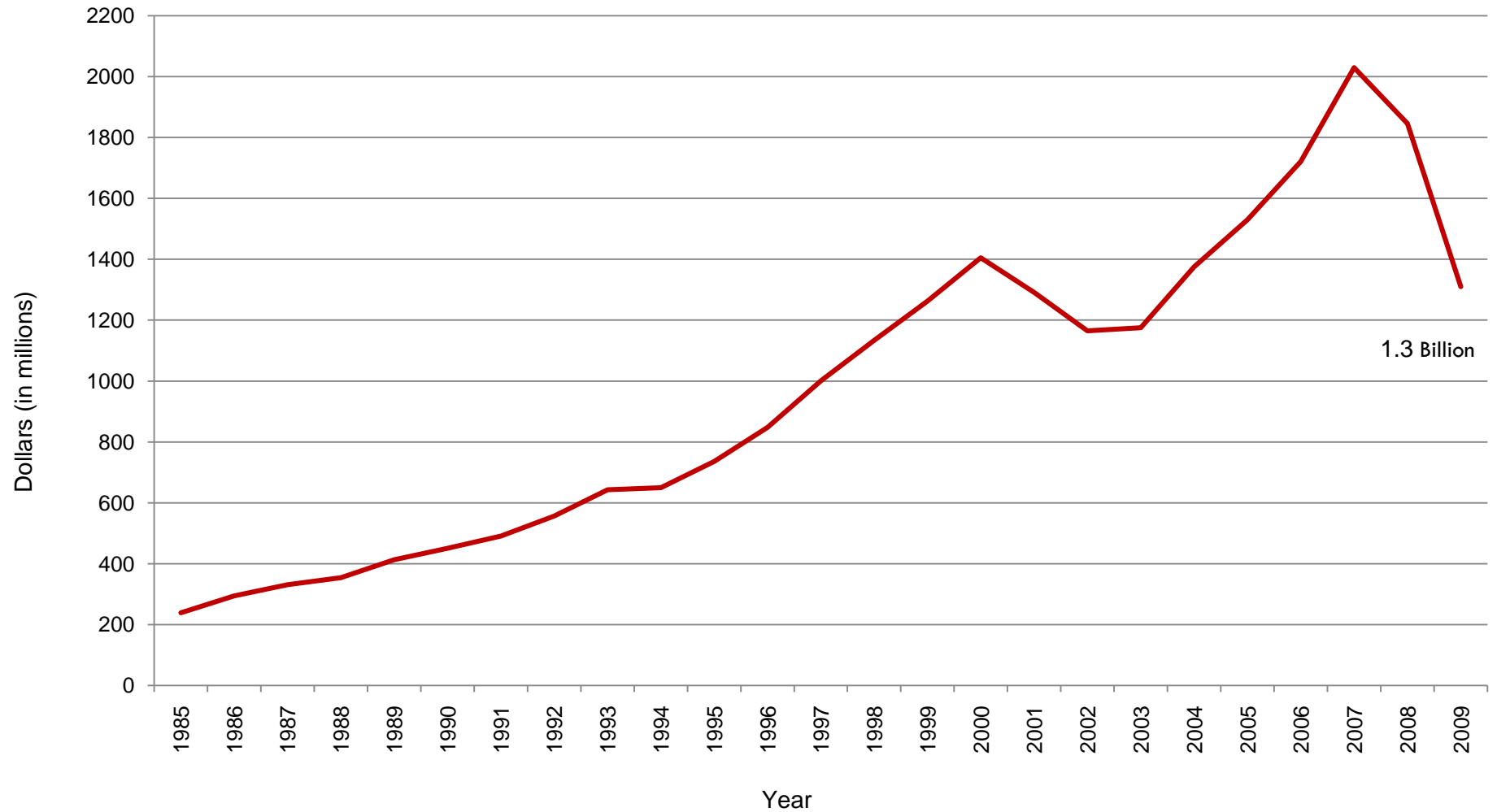
2009 Investment Return

- Sharp drops in global investment markets resulted in significant losses for all investors, large and small, last year.
- State Investment Board reported TFFR investment performance was **-27.33%** for fiscal year ending 6/30/09 which was well below the 8% assumed rate needed to fund the plan.
- Markets had this kind of effect on retirement plans around the country (individual, corporate, and public plans).
- This was the worst time period for investors since the Great Depression. In last 218 years, there have only been 4 years worse than last year.

TFFR Investment Performance – Annual 1985-2009

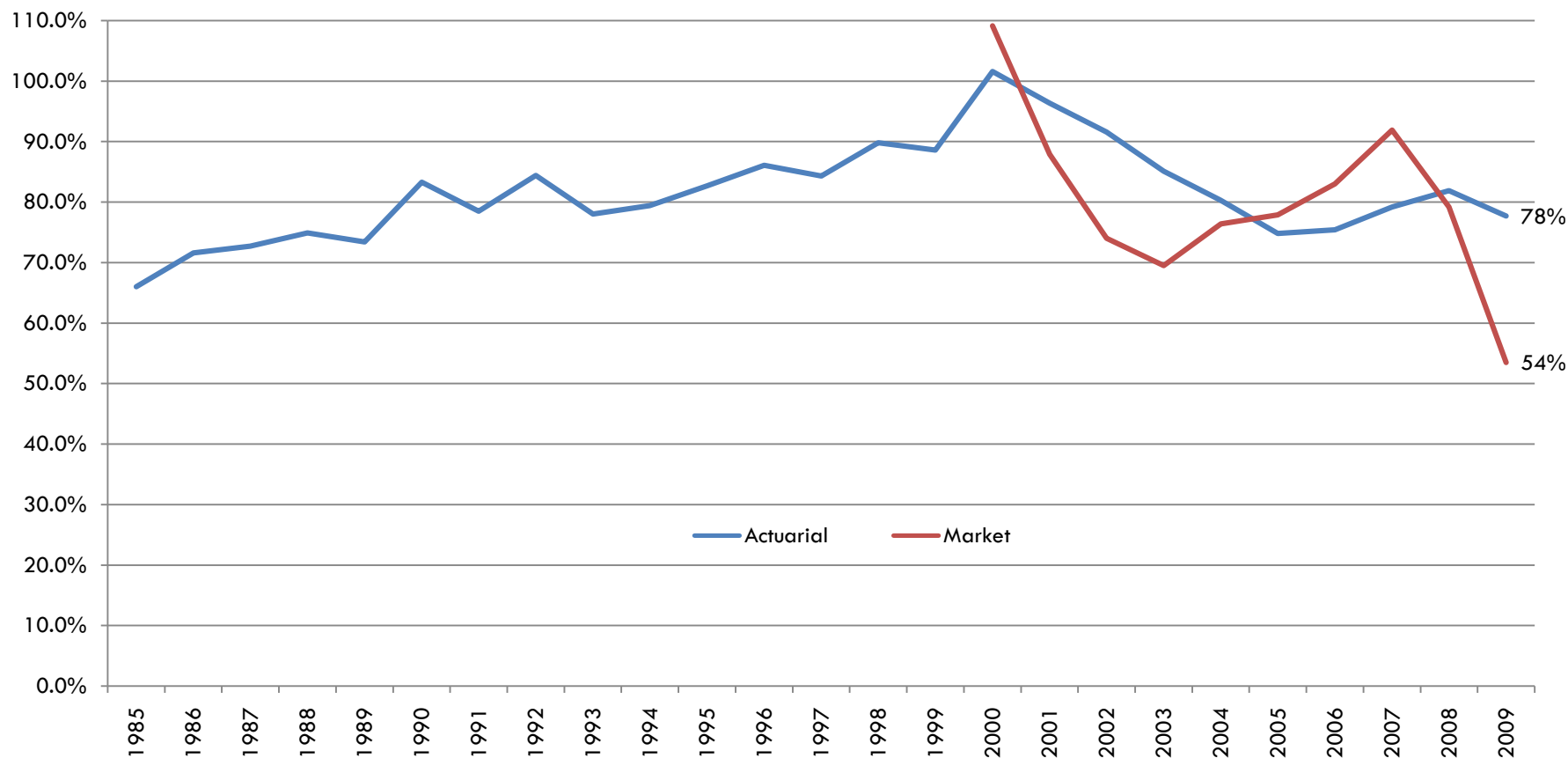


Market Value of TFFR Assets



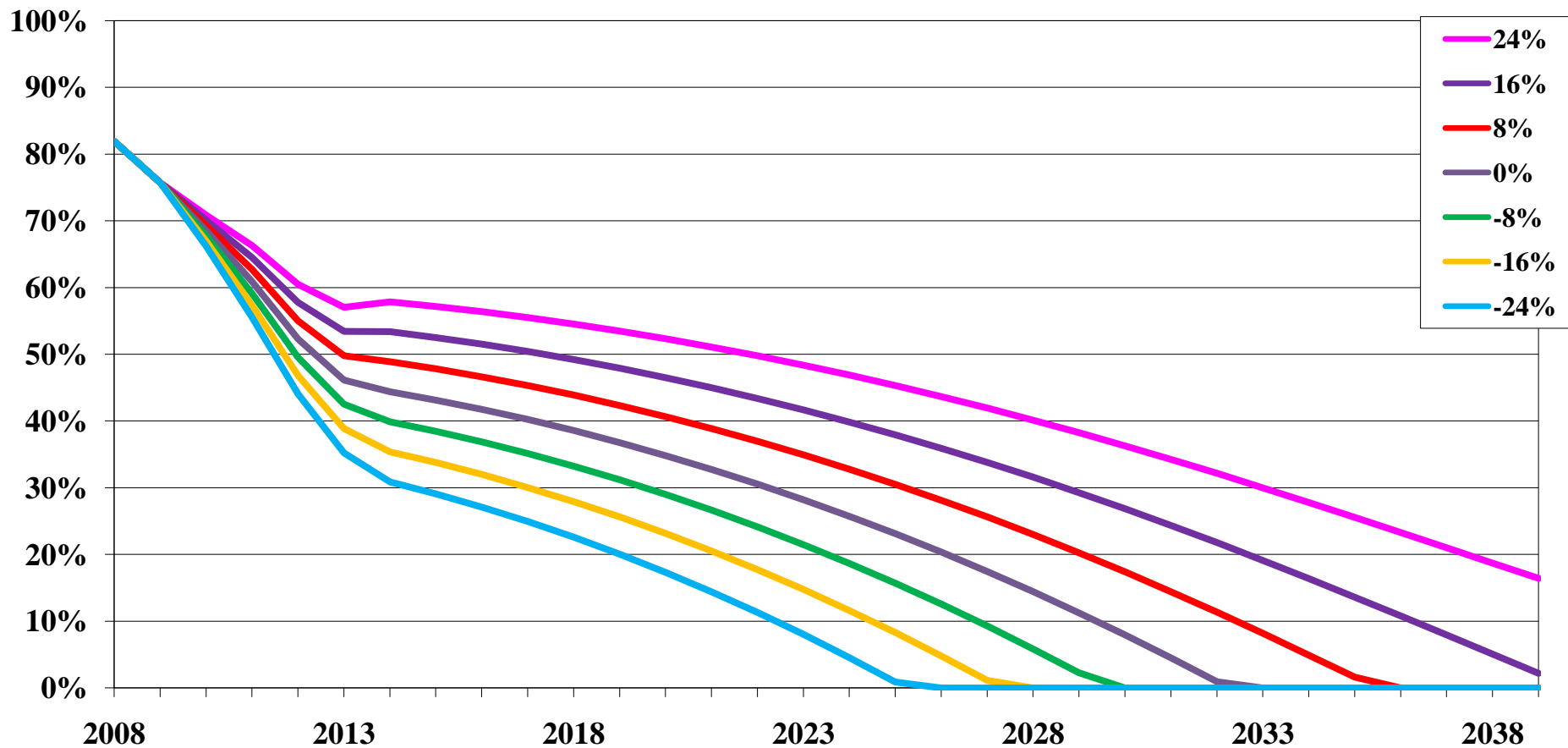
TFFR Funded Ratio

Actuarial and Market Value of Assets



*Funded ratio at market value not calculated 1985-1999.

Projected TFFR Actuarial (AVA) Funded Ratios based on variable investment returns for FY 2010



Note: Funded ratio estimates using actuarial value of assets (AVA) are based on following assumptions: Variable investment returns for 2010 (24%, 16%, 8%, 0%, -8%, -16%, -24%) and 8% investment returns for 2011 and all future years.

TFFR Funding Challenge

- Stop the downward trend
- Stabilize funding
- Improve funding over the long term

How to improve the financial well being of the TFFR trust fund is the Board's #1 priority.





Exploring Options

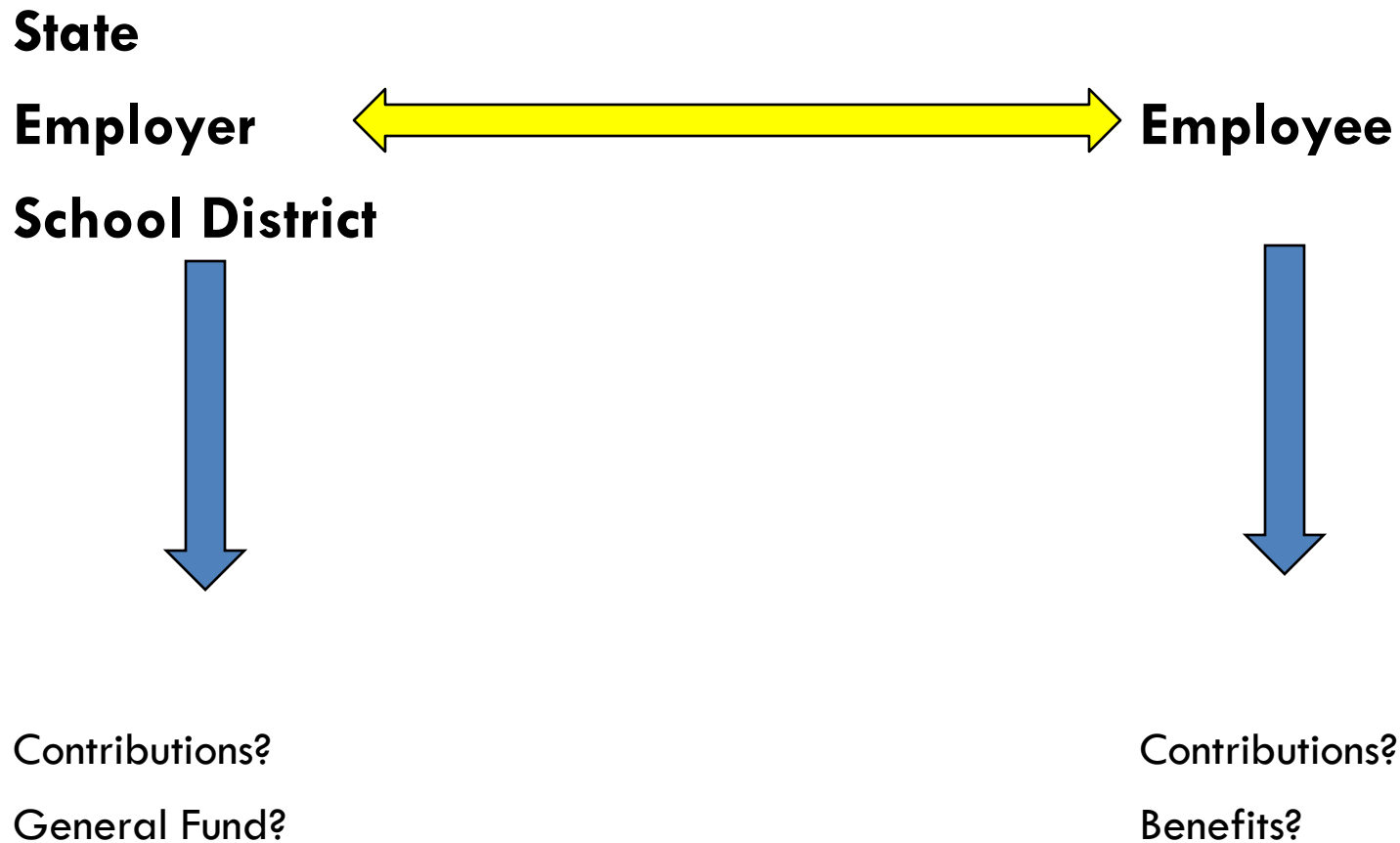
TFFR Funding Improvement Study Group

- TFFR Board of Trustees
- Member and Employer Interest Group
 - ▣ ND Education Association (NDEA)
 - ▣ ND Council of Educational Leaders (NDCEL)
 - ▣ ND School Board Association (NDSBA)
 - ▣ ND Retired Teachers Association (NDRTA)
- Retirement & Investment Office (RIO) Staff
- Actuarial consultant - GRS
- Legal counsel – ND Attorney General's Office

TFFR Funding Improvement Study

- TFFR Board and stakeholder groups have been meeting in 2009-10
 - ▣ Review funding improvement options
 - ▣ Consider advantages and disadvantages of various alternatives
 - ▣ Receive actuarial cost information
 - ▣ Consider legal issues
 - ▣ Formulate legislative plans
- Active involvement by all stakeholder groups has been very beneficial in helping the TFFR Board analyze the impact of funding improvement options.

Who Should Bear the Cost of Funding Improvements?

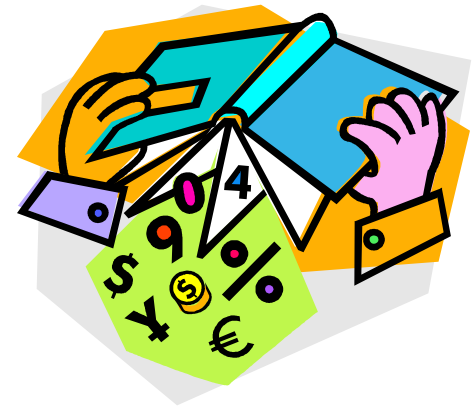


What Changes can the State Legally Make?

- TFFR's legal counsel from the ND Attorney General's Office has re-examined issue regarding legality of pension benefit structure changes.
- General conclusions:
 - ▣ State cannot change pension benefits of retired members.
 - ▣ State can change benefits of new hires.
 - ▣ Not clear if State can change benefits or contributions of active and inactive members
 - ▣ State could face possible legal challenges depending upon which course of action is taken. If challenged, Supreme Court would need to make final determination.

Options to Address Funding Challenge?

1. Investment performance over 8% assumed return
2. Increase contributions
3. Reduce benefits
4. State general fund or other revenue source
5. Combination of some / all of above



1) Investment Performance

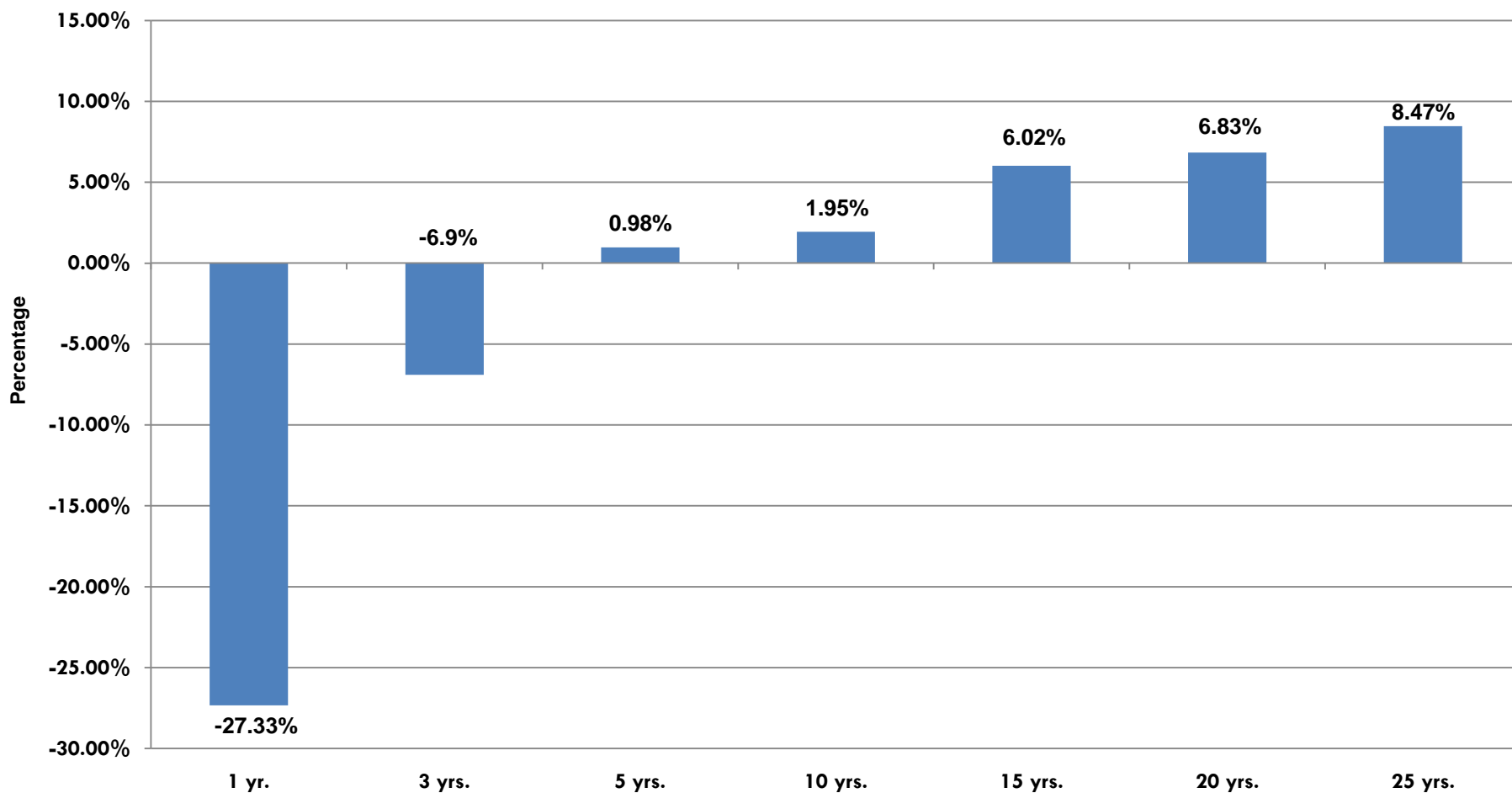
Projected Return Required Each Year after FY 2010 to Achieve Given AVA Funded Ratio in 30 Years



Return Assumed for FY 2010	24.00%	16.00%	8.00%	0.00%	-8.00%	-16.00%	-24.00%
Target Funded Ratio	Post-FY 2010 Return Required						
70%	9.58%	10.13%	10.75%	11.45%	12.24%	13.16%	14.24%
80%	9.78%	10.33%	10.94%	11.62%	12.41%	13.32%	14.39%
90%	9.97%	10.51%	11.12%	11.80%	12.57%	13.47%	14.53%
100%	10.16%	10.69%	11.29%	11.96%	12.73%	13.61%	14.66%

1) Investment Performance

Average TFFR Returns 1985-2009



Year Ended June 30, 2009

1) Investment Performance

- TFFR/SIB long term investment strategy is sound, portfolio is professionally managed, and assets are well diversified.
- Need 10-11% average returns in future in order to stabilize funding.
- Long term historical returns have been over 8%, but not at 10-11% levels.
- Current market recovery is very good news, but still will not change TFFR's long term funding projections much.
- Doubtful we can expect much excess return (over 8% assumption) in future to assist with addressing TFFR's funding shortfall.
- Unlikely we can “invest our way out of it.”

2) Increase Contributions

- Current statutory rates

□ Employer	8.75% (effec 7/1/10)
□ Employee	<u>7.75%</u>
Total	16.50%

- 2009 contributions paid

□ Employers	\$37 million
□ Employees	<u>35</u> million
Total	\$72 million

- Increasing contribution rates by +1% =
\$5 million/yr of additional contributions.



Projected Funded Ratios

Contribution Increases Only - No Benefit Changes

Increase per Biennium	No Change	10% immed.	1% phased	2% phased	3% phased	4% phased
TOTAL INCREASE	0%	10%	3%	6%	9%	12%
2009	76%	76%	76%	76%	76%	76%
2010	69%	69%	69%	69%	69%	69%
2011	63%	63%	63%	63%	63%	63%
2012	55%	55%	55%	55%	55%	55%
2013	50%	52%	50%	50%	50%	50%
2014	49%	52%	49%	50%	50%	50%
2019	42%	56%	45%	48%	51%	54%
2024	33%	60%	39%	46%	53%	59%
2029	20%	65%	32%	43%	55%	66%
2034	5%	73%	23%	40%	58%	76%
2039	0%	84%	13%	39%	64%	89%

All calculations based on recommended new actuarial assumptions. Projections assume 8.00% net investment return in FY 2010 and all future years. Funded ratios based on actuarial value of assets.

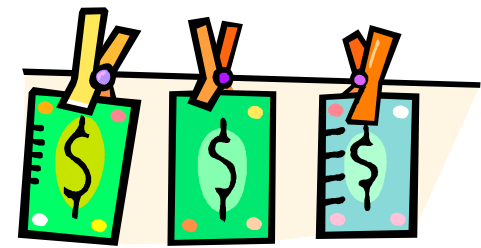
Current contribution rates are 8.75% for employers, effective July 1, 2010, and 7.75% for members.

Current total combined contribution rate is 16.50%

2) Increase Contributions

- TFFR Board has determined that contributions will need to be increased to offset investment losses and improve TFFR funding levels.
- Estimate 8-10% total contribution increases?
 - ▣ Approximately \$40-\$50 million each year in additional TFFR contributions (after phase in)?
 - ▣ Dependent upon how soon contributions would be increased.
 - ▣ Dependent upon what benefit reductions, if any, would also be made and to whom they would be applied.
- Contribution increases should be shared between employer and employee and phased in over time.
- Contribution rates should be reduced when adequate TFFR funding levels are met.
- Increasing contributions is likely to have a negative impact on school district budgets, future salary increases for employees, employee take home pay, among other factors which the Study group has discussed.

3) Benefit Reductions



- Benefit reductions have also been considered by TFFR Board in order to reduce future liabilities and potentially reduce the contribution increases necessary to stabilize TFFR funding levels.
- TFFR Board has received estimates of actuarial effect of making various benefit changes.
- Considered applying various benefit changes to:
 - New hires only
 - Tier 2 members only
 - All employees, but with grandfathering provisions to protect those employees within 10 years of retirement
- There is only a small effect on long term savings unless benefits are reduced significantly or applied to current employees.

3) Benefit Changes Discussed

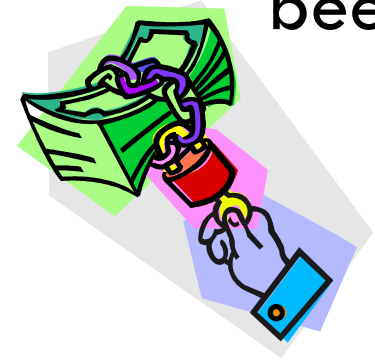
- ▣ Raise retirement eligibility requirements for both unreduced benefits and reduced benefits
 - Rule of 90, age 60, age 62, age 65, or minimum age with Rule of 90?
 - Increasing retirement age will likely be included in TFFR legislative proposal.

- ▣ Reduce benefit multiplier
 - For future service?
 - Board does not plan to include reducing benefit multiplier in TFFR legislative proposal. Board believes 2.0% multiplier is essential to providing adequate retirement security.

- ▣ Other benefit changes would have minor actuarial impact, but also considered:
 - Interest earned on member's account, vesting, final average salary calculation, service purchase options, survivor and disability benefits, retiree re-employment, etc.

4) State General Fund or Other Revenue Source?

- TFFR Board has also discussed requesting one time state general fund appropriation to further reduce liabilities and improve funding levels.
 - ▣ Estimate \$75 million lump sum payment = 1% ongoing contribution increase.
- Other revenue sources have also been



5) Combined Approach – Shared Responsibility

- TFFR Board is developing legislative proposal(s) that reflect **shared responsibility** for long term TFFR funding improvement.
- Employees – teachers and administrators
- Employers – school boards
- State – plan sponsor

5) Combined Approach – Shared Responsibility

□ Provides balance

- ▣ Cost
- ▣ Timing
- ▣ Benefit adequacy



□ Cooperative and respects the competing demands of employees and employers.

- ▣ ND educators are in varying stages of their career: newly hired, mid-career, ready-to-retire, already retired.
- ▣ School boards and other participating employers have differing budget priorities and needs.



Legislative Study Process

2010 Interim Legislative Study

Legislative Employee Benefits Programs Committee (LEBPC)

April 1, 2010

TFFR Board submits draft legislation for interim legislative study.

Other pension bills also studied.

May – October 2010

Bills sent for actuarial and technical review.

LEBPC hearings and public comment period.

October - November 2010

LEBPC makes recommendations on bill draft:

- Favorable recommendation
- Unfavorable recommendation
- No Recommendation

2011 Legislature

62nd Legislative Assembly

Nov – Dec 2010

TFFR Board reviews
LEBPC rec. and pre-
files funding
improvement bill with
2011 Legislature.

January – April 2011

Legislature reviews
TFFR proposal and
LEBPC rec.

Leg reviews other
proposals?

January – April 2011

Legislature acts on TFFR
proposal.

- Approve
- Reject
- Amend
- Other proposals?

2011 Legislation



- TFFR Board can propose legislative changes, but it is the responsibility of the ND Legislature to decide what changes, if any, will be made to address declining funding levels.
- Active and retired teachers, administrators, and employers should closely monitor 2011 legislation for potential impact.
- Teachers, administrators, and employers should work with their interest groups on 2011 legislative proposals.



Summary

Why It's Important to Address the Sustainability of the TFFR Plan

- A financially strong TFFR defined benefit plan with competitive benefits is an important tool used by 231 ND school districts and other employers to attract and retain quality educators in ND.
- TFFR provides lifetime financial security to over 6,500 currently retired educators, and nearly 10,000 more future retirees so that they may care for themselves in retirement.
- Pension benefits received by retirees are spent in the state and local community. This spending ripples through the state in the form of jobs, tax revenues, and economic impact.
- It is in the best financial interests of teachers, administrators, school districts, and the State to take funding improvement actions soon to ensure the long-term solvency of TFFR for current and future generations of ND educators.

Important Points

- Although this is not an immediate crisis, it is a serious situation.
- Without action, TFFR's unfunded liability will continue to increase and funded ratio will continue to decrease.
- The longer we wait, the more it will cost.
- Funding improvement actions should start soon and be **phased in over time**. Shortfalls will not be solved in legislative session, nor with a couple good years investment returns.
- Funding improvement is a **shared responsibility**. Both members and employers may need to contribute to the funding solution so that lifetime pension benefits for teachers are secure.



Future TFFR Updates

- Web Presentations April
 - TFFR Funding Challenge
 - Part 1: Exploring Options
 - Part 2: Legislative Proposals
- Special TFFR newsletter late April
- Regional Meetings May-June
 - ▣ Grand Forks
 - ▣ Fargo
 - ▣ Minot
 - ▣ Bismarck

Contact Information

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